

6 October 2004

Acting Chairman
Independent Pricing and Regulatory Tribunal
GPO Box Q290
QVB Post Office NSW 1230

Attention: Mr James Cox

Dear Mr Cox

REVIEW OF GAS ACCESS ARRANGEMENTS SUBMITTED BY AGL GAS NETWORKS

Origin is pleased to provide its response to your request for submissions on AGL Gas Networks' proposed Access Arrangement. This letter addresses the following issues;

- (a) AGLGN's expenditure submission
- (b) Allen Consulting Group's review of the Terms and Conditions
- (c) Aggregation of Delivery Zones

As a second tier gas retailer in NSW, Origin Energy is keen to support initiatives by the Tribunal to improve regulatory outcomes for the benefit of consumers and suppliers.

Origin is a leading Australian energy company that supplies natural gas, electricity and liquid petroleum gas (LPG) to more than 2 million business and residential customers in Australia, New Zealand and the Pacific.

(a) Expenditure Submission

Background

The Tribunal engaged the Energy Consulting Group (ECG) to review and make recommendations on AGLGN's submission of capital and non-capital expenditure for the 2005-10 Access Arrangement period. In conducting the review, ECG were guided by the Gas Code requirement that the expenditure "*amount does not exceed the amount that would be invested by a prudent Service Provider acting efficiently, in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing the Services*".

ECG has used network technical analysis, benchmarking, project cost breakdown, and consultation with AGLGN to arrive at its recommendations. ECG's approach compares favourably with approaches used in other jurisdictions.

Retailer Issues

As a gas retailer in NSW, Origin Energy uses AGLGN's distribution system to supply its customers. The level of distribution charges (DUOS charges) is directly dependent on AGLGN's expenditure estimates as approved in their Access Arrangements for the period. The DUOS charges are a cost to the retailer and ultimately the customers it serves. It is therefore important that the allowable DUOS capital and non-capital expenditure are the lowest sustainable. In this regard, ECG's approach sought the lowest level of costs and Origin welcomes the approach.

An important objective for the tribunal is to promote and foster competition in the retail market for gas. To achieve this, barriers to entry must be as low as possible. It is important that ring-fencing principles that deter the inclusion of AGL retail

costs in the AGL Gas Network costs are adhered to. It is particularly important for the Tribunal to review the allocation of non-capital costs between the retail and network businesses. Admittedly, while overall costs may be lower due to cost sharing, those benefits could easily be lost if the allocation method is skewed in favour of the retail business. Higher DUOS costs would therefore act as a barrier to entry. Origin Energy would like to see the Tribunal place more scrutiny on the cost allocation methods used by AGL.

Prudent levels of expenditure within one regulatory period are also essential to limit rate shock for consumers. In this regard, non-essential expenditure that can be deferred to the next regulatory period without affecting network system integrity need not be included in the current expenditure forecasts. ECG has identified substantial expenditure that can be deferred to the next period. Origin welcomes ECG's recommendations and believes they will benefit consumers.

Origin believes the Tribunal should adopt the ECG recommendations on forecast expenditure.

(b) Terms and Conditions

Origin expressed several concerns about the Terms and Conditions of AGL Gas Networks' proposed Access Arrangement in its original letter to the Tribunal in April 2004. Origin's main concerns are that;

- The terms and conditions presented by AGL Gas Networks for the Tribunal's determination of reasonableness under the code are not the only terms and conditions by which AGL Gas Networks allows access to its network. AGL Gas Networks directs prospective users to the following agreements which also apply to its Access Arrangement;
 - "General Terms and Conditions for Tariff Reference Services"
 - "Tariff Service Agreement"
 - "General Terms and Conditions for Non-Tariff Reference Services"
 - "Multiple Delivery Point Services Agreement"

The Tribunal has not been consulted on reasonableness of these additional terms and conditions.

Origin is also concerned that the terms and conditions are unnecessarily complex and repetitive, thereby reducing the efficiency of the agreement and increasing the contract management overheads for both AGLGN and retailers. Origin recommends aggregation and simplification of the various sets of terms and conditions related to access to the AGLGN network.

- AGLGN has not set out specific objective requirements for Security Payments.
- Specific details on how payment disputes are to be handled.

Origin notes that other retailers and The Allen Consulting Group have expressed their concern on these and other matters related to the Terms and Conditions and have also suggested rationalisation of the Terms and Conditions.

Origin is of the firm view that rationalisation of the terms and conditions fits with the stated aim of the Code;

"to provide sufficient prescription so as to reduce substantially the number of likely arbitrations, while at the same time incorporating enough flexibility for the parties to negotiate contracts within an appropriate framework."

(Page 1, National Third Party Access Code for Natural Gas Pipeline Systems)

(c) Aggregation of Delivery Zones

Origin is in favour of AGLGN's proposal to aggregate the three delivery zones into one and believes that this initiative will effectively facilitate a gas swap market.

We also believe that AGLGN's stated additional cost of aggregating the delivery zones is reasonable considering the advantages offered to all participants by such an arrangement.

Origin Energy would be pleased to expand upon any of the points made in this submission. Please contact David Grove on (02) 8345 5481 or Beverley Hughson on (03) 9652 5702.

Yours sincerely

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